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SIPDIS

STATE FOR G; EB; EAP/EX; EAP/MLS; EAP/EP; INR; OES/STC
(PBATES); OES/IHA (DSINGER AND NCOMELLA); CA/OCS/ACS/EAP
USDOC FOR 4430/MAC/ASIA/OPB/VLC/HPPHO
TREASURY FOR OASIA
STATE PASS USTR (ELENA BRYAN)
BANGKOK FOR RMO, CDC, USAID/RDM/A (MFRIEDMAN AND JMACARTHUR)
USDA FOR FAS/PASS TO APHIS
DEPARTMENT OF DEFENSE FOR OSD/ISA/AP (LSTERN)
USAID FOR ANE AND GH (DCARROLL, SCLEMENTS AND PCHAPLIN)
STATE ALSO PASS HHS/OGHA (EELVANDER)
ROME FOR FAO

SENSITIVE

E.O. 12958: N/A

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SUBJECT: A DOLLAR HERE, A DOLLAR THERE: THE ECONOMIC COST OF
AVIAN INFLUENZA IN VIETNAM

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¶1. (SBU) Summary. The cost of Avian Influenza (AI) both in human and agriculture terms has been greater in Vietnam than in any other country. AI has killed 42 people in Vietnam and over 50 million poultry have been culled to prevent its spread since December 2003. The World Bank estimates that the total cost of AI on the animal side will amount to 0.1 to 0.2 percent of Vietnam's Gross Domestic Product (GDP) in 2005 or, in dollar terms, approximately USD 50 to 100 million. (In 2004, Vietnam's GDP was approximately USD 45.4 billion and GDP growth rate was 7.7 percent.) According to Vietnam's Poultry Association, however, the country's poultry industry lost approximately USD 71 million in December 2005 in lost chicken and egg sales, while the demand side of the Vietnam's economy has been relatively unscathed by AI. In fact, certain sectors such tourism continue to thrive, but this would likely be short-lived if a human pandemic or even the threat of a pandemic ever eventuates. In the worst case scenario involving a full pandemic, the World Bank estimates that Vietnam's GDP would fall by two percent and growth throughout Asia "would virtually stop." However, at this state, our ability to truly quantify the full import of such a pandemic is very sketchy. End Summary.

Farmers and Chickens: Hardest Hit

¶2. (SBU) Since the initial outbreak of AI in December 2003, the GVN has culled approximately 50 million poultry, primarily chickens and ducks, to prevent the spread of AI. About two-thirds of Vietnam's poultry industry is made up of small-scale farmers with flocks of ten birds or fewer and these small farmers have been devastated by sick birds, mandatory culling and a drastically reduced market for their poultry products. Direct economic costs impact not only farmers, but also other sectors such as poultry distributors, wholesalers, feed producers, breeding farms and other related channels. According to the World Bank, there was a 15 percent decline in poultry production as a direct result of the first large AI outbreak during winter 2004-05. Vietnam's Ministry of Agriculture and Rural Development's (MARD) measure of meat supply shows poultry supply fell from 16 percent in 2003 to 14 percent (as a percentage of total meat supply) in 2005. In 2004, Vietnam's GDP was approximately USD 45.4 billion and its GDP growth rate was 7.7 percent. The World Bank reports that Vietnam's poultry sector comprises 0.6 percent of GDP, thus, a 15 percent decline in poultry outputs results in a 0.08 percent drop in Vietnam's GDP. In 2005, the World Bank predicts that the total cost to the poultry sector will increase because of AI and estimates the total cost to "be around 0.1 percent of GDP."

¶3. (SBU) The strict government regulations introduced in October 2005 on the slaughter, sale and transportation of poultry were another blow to Vietnam's poultry industry. According to the United Nation's Food and Agriculture Organization (FAO), the largest losses were felt by small scale commercial chicken farmers who had "borrowed money to fund poultry production and found themselves in debt when their birds died, were culled, or could not be sold." Although the sale of chickens and eggs is slowly returning to retail markets, the Vietnam Poultry Association estimates that farmers lost approximately USD 71 million in December 2005 from unsold poultry and eggs. The Association argues that if the trend continues, farmers could cumulatively lose more than USD 350 million or 0.8 percent of GDP over a four-month period ending March 2006. Agricultural experts note that there are at least 500 million poultry grown each year

for sale and/or egg production, suggesting that while the precise amount that the poultry industry contributes to official GDP may be disputed, the real economic impact lost sales will have on the livelihoods of farmers in Vietnam's rural, poorer areas is significant.

¶4. (SBU) The threat of AI and the public's fear of poultry products has not slowed Vietnam's agricultural exports, which jumped 17 percent in 2005 (USD 5 billion), but it has had a dramatic impact on Vietnam's poor, whose standard of living has only recently started to increase, a result of, among other factors, the GVN's robust efforts at poverty reduction. A recent report on one farmer from the Mekong region who had to destroy his flock of 23,000 in 2004 illustrates how quickly AI can reverse these positive developments. This Mekong farmer's 2004 losses cost him a decade's worth of personal savings. Left with only 10,000 hatchlings to raise as his sole source of income in 2005, he now ensures the birds are inspected every other month for AI and that their cages are cleaned daily. The continuing threat from AI, however, could potentially wipe out his remaining stock, despite his best efforts at prevention. While some small farmers have switched to raising pigs or other animals to make up for their loss in income, many do not have the resources or the technical knowledge to make these changes and continue to raise poultry because it is what they know how to do.

¶5. (SBU) In Vietnam, consumer demand for poultry usually reaches an annual peak in late January or early February during Vietnamese New Year or "Tet", but due to the limited availability of poultry products and some fears about product safety, this year consumers are switching to buying pork or other foodstuffs. After the initial AI outbreak in 2004, the World Bank reported that pork product purchases rose by 12 percent. MARD reports that pork supply (as a percentage of total meat supply) only increased by one percent from 2003 to 2005. In local markets today, Vietnamese consumers are feeling the pinch as prices for various foodstuffs are rising, increasing December's Consumer Price Index (CPI) by 0.8 percent. In fact, the 2005 CPI has now risen to 8.4 percent reflecting the fact that 49 percent of Vietnam's CPI is comprised of food prices.

¶6. (SBU) With assistance from USG and other donors, the GVN is carrying out a nationwide poultry vaccination campaign, which experts believe to be the critical step for preventing a widespread AI pandemic. The GVN estimates that the poultry vaccination program will cost over USD 35 million, which includes compensation paid to farmers. To date, throughout the country, an estimated 189 million poultry have been vaccinated. The GVN plans to continue the vaccination program until 2008, in the hope that enough of the poultry population will be protected from infection that the virus will be unable to sustain itself.

The Inn is Full

¶7. (SBU) While AI has dealt a devastating blow to Vietnam's poultry industry, the service sector has remained largely unaffected since the initial AI outbreak in December 2003. Vietnam's tourism sector, for example, has remained healthy with most major hotels in Hanoi and Ho Chi Minh City having very few vacancies. According to the Vietnam National Administration of Tourism, Vietnam welcomed 3.1 million visitors the first eleven months in 2005, an increase of 18.8 percent over 2004. The increase in travelers has been a boom for Vietnam's airline, hotel and service industries. Despite the AI threat, the general perception among travelers is that Vietnam remains a safe destination. Vietnam Airlines recently announced a 28 percent increase in the number of passengers it handled this year versus in 2004. Out of six million passengers Vietnam Airlines handled in 2005, 2.8 million were foreigners. In comparison, the SARS outbreak in 2003 crippled Vietnam's tourism and hospitality industry for months.

Doomsday Scenario?

¶8. (SBU) In addition to AI economic impact studies from the World Bank, Asian Development Bank and FAO, the financial sector has also been researching the consequences of a possible human pandemic and how it will affect the financial markets and economies around the World. One study from a major U.S. bank characterizes the results of an AI pandemic as "worse than SARS" and in the worst case scenario, the economic effects would be "a global problem, not an Asian one." In Vietnam and in other countries, the demand side of the economy will undoubtedly be affected, with disruption foreseen in the tourism, retail and transportation markets. The supply side of the economy would also be affected because of a contracted labor market due to sickness and absenteeism. The impact that AI will have on the public and private health sectors, both in Vietnam and globally, is

difficult to quantify. The bank study notes that likely sector losers during an AI pandemic will "include airlines, airports and travel companies" but expected winners are "pharmaceutical stocks, hospitals and medical supplies." In labor intensive countries and infrastructure poor countries such as Vietnam, the World Bank estimates that GDP would fall by two percent in the event of a full-fledged pandemic. Frankly, that figure seems low to us. In reality, the true economic costs of an AI pandemic, should it occur, would certainly be staggering and in some ways, immeasurable.

MARINE